

## Chapter V: Internal Audit by Pr. CCA, CBDT

### 5.1 Introduction

The Principal Chief Controller of Accounts (Pr. CCA) heads the accounting organization of the CBDT with Revenue Secretary as the Chief Accounting Authority. The Pr. CCA administers the accounting functions and Internal Audit of accounts formations under CBDT.

At the field level, there are 52 Zonal Accounts Offices (ZAOs) under the jurisdiction of Pr. CCA, CBDT. However, on account of Restructuring of Accounts Wing of CBDT, 28 new ZAOs and 4 e-PAOs have been created. IAPs in respect of newly created ZAOs are yet to be formed.

The Manual of Internal inspection of CBDT (Manual) issued by the Pr. CCA, New Delhi guides the functions of Internal Audit Party.

We examined the issues of audit planning, reporting and follow up mechanism of audit paras raised by Internal Audit during FYs 2010-11 to 2013-14 to ascertain the efficiency and effectiveness of Internal Audit function of the Office of Pr. CCA, CBDT.

### 5.2 Audit Scope and Coverage

All Offices of CBDT, Authorized Banks for collection of CBDT revenue fall within the jurisdiction of Internal Audit. Internal Audit checks initial accounts maintained in the executive offices to ascertain compliance to the rules and regulations, systems and procedures in accounting and financial matters. In addition to the Chief Controller of Accounts (Internal Audit) at New Delhi, there are Internal Audit parties (IAPs) with their headquarters located at various ZAOs, as per details given in Table 5.1. The IAPs function under the overall guidance of Pr.CCA who is assisted by CCA/CA/DCA/ACAs at Delhi, Mumbai, Kolkata, Chennai and Kanpur.

**Table 5.1: List of Internal Audit Parties**

CA/DCA/ACA	IAP	ZAOs to be Audited by IAP
CA Mumbai	Mumbai, Ahmedabad, Bhopal & Jaipur (4 IAPs)	ZAO-Chennai, Cochin, Kanpur, Agra, Rohtak, Jalandhar & Meerut
DCA/ACA Delhi (HQ)	IAP-I & II, Delhi, and Patiala (3 IAPs)	ZAO-Patna, Shillong, Bengaluru, Lucknow & Ahmedabad
DCA Kanpur	IAP-Allahabad & IAP-Patna (2 IAPs)	ZAO-Patiala & Amritsar

DCA Kolkata	IAP-I & II Kolkata, (2 IAPs); The work of IAP Patna will be routed through AO(IA) Allahabad with overall administrative control with DCA Kolkata	ZAO-Hyderabad, Allahabad, Bhopal & Mumbai
DCA Chennai	IAP- Chennai & Hyderabad (2 IAPs)	ZAO-Bhubaneswar, Kolkata, Nagpur, New Delhi, Jaipur & Pune

*Source: Manual of Internal Inspection, CBDT*

The auditable units are classified as annual, biennial and triennial based on periodicity of audit. All ZAOs, Nodal Banks, DDOs of Pr.CCIT/CCIT at Mumbai, Kolkata, Chennai, Delhi; Drawing and Disbursing Officers (DDOs) of CIT Offices, other HoDs and CIT Field Pay Units at New Delhi, Mumbai, Kolkata, Chennai, Ahmedabad and Hyderabad are annual units and are thus required to be audited every year. CBDT/CIT Field Pay Units in other cities are biennial. DDOs of Pr.CCA/CCA of non-metro cities are triennial.

We found that the ZAO units of Chennai, Durgapur, Jalpaiguri, Mumbai, Trivandrum and New Delhi had not been audited during FYs 2010-11 to 2013-14 by Internal Audit Party till date of Performance audit. There is no Internal Audit wing stationed at ZAO-Durgapur and Jalpaiguri and the units have not been audited by any other IAP.

In Haryana and Punjab & UT Chandigarh charge, 3 ZAOs (Ludhiana, Chandigarh and Panchkula) were created in 2012. However, these ZAOs have not been audited by IAPs.

It is not clear to audit whether Manual of Internal Inspection was updated to indicate new audit jurisdiction. In absence of any updation, there is a risk of newly created units remaining unaudited.

**We noticed that the IAPs did not conduct audit of all functional divisions viz. Audit of RTI, Systems Audit, e-payment Audit, Refund Audit etc. as per the scope outlined by the Board.**

### **5.3 Audit coverage of functional divisions as per scope outlined by Board**

As per Para 2.2 of the Manual of Internal Inspection of CBDT, the scope of Internal Audit by Pr. CCA extends to inspection of accounting records maintained in the Office of the Pr. CCA, ZAOs, Field Pay Units, Drawing and Disbursing Offices and Receipt Accounting Units in the ITD- banks authorized for collection of direct taxes, Personal Deposit Accounts (maintained at CITs office), Regional Training Institutes of ITD (RTI), System Audit of ITD,

e-payment of ITD, refund audit. Following shortfalls were noticed in audit coverage of functional units auditable by Internal Audit of Pr. CCA, CBDT:

- a. We noticed that the Internal Audit Wing of Office of Pr. CCA, New Delhi did not conduct the Internal Audit of RTI, Systems Audit, e-payment Audit and Refund Audit.
- b. In Maharashtra charge, the IAPs assigned with Internal Audit of ZAOs at Mumbai, Nagpur, Pune, Thane and Nasik did not conduct Systems Audit and e-payment audit during FYs 2010-11 to 2013-14. *The Sr.AO, ITA (Co-ordination), Mumbai stated (November 2014) that the ZAOs at Thane and Nasik were newly formed in 2012 and audit of all units under the ZAOs at Nagpur, Pune, Thane and Nasik could not be conducted due to shortage of staff. It was further stated that the RTI audit and Systems Audit has already been completed by ZAO Mumbai for FY 2014-15.*
- c. In ZAO, CBDT, Chennai charge, the IAP had not conducted the Systems Audit and Audit of e-payment.
- d. In ZAO, CBDT, Jaipur charge, the IAP had conducted audit of only the DDOs. In Gujarat charge IAP had conducted audits of DDOs and Personal Deposit Accounts during FYs 2010-14.
- e. In Hyderabad charge, ZAOs, Ministerial Staff Training Unit in Hyderabad, system audit of ITD, e-payment of ITD, Receipt Accounting units in ITD, Tax Information Network, complaints, grievances of assesseees were not taken up for internal audit during FYs 2010-11 to 2013-14.

We noticed that the Annual Review on the Performance of Internal Audit brought out every Financial Year does not indicate the extent of coverage of functional units viz. audit of ZAOs, FPU, DDOs, Receipt Accounting Units in ITD, Personal Deposit Accounts etc.

*Pr. CCA (CBDT) stated (June 2015) that audit of functional units are conducted as per administrative convenience and audit of RTI and System audit has been started. Refund audit was not undertaken due to shortage of staff and audit procedure and techniques of audit of E-Payments are to be implemented.*

**The IAP did not audit all the units assigned thereby resulting in shortfall ranging from 10 units to 774 units during the period comprising FYs 2010-11 to 2013-14.**

#### 5.4 Audit coverage of units planned by Internal Audit

The auditable units are classified as annual, biennial and triennial depending on the periodicity of audit. As per the existing practice units are planned for Internal Audit every year. As per Annual Review of Performance of Internal Audit of Pr. CCA, CBDT, during FYs 2010-11 to 2013-14, out of 4,921 units to be audited, only 1,213 units (24.65 per cent) were audited leaving 3,708 units (75.35 per cent) unaudited, as shown in Table 5.4 of this Chapter.

In order to investigate the reason for shortfall in coverage of units due for internal audit at field level, we ascertained the following:

**Table: 5.2: Shortfall in coverage of units for audit**

Region	Units due for audit	Units audited	Shortfall	Reasons for shortfall
1. Andhra Pradesh & Telangana	369	130	239	Shortage of funds and deviation in programme
2. Gujarat	157	147	10	Not given
3. Karnataka	97	22	75	Shortage of manpower
4. Kerala	76	13	63	Not given
5. Maharashtra	861	87	774	No separate staff sanctioned for Internal Audit
6. Odisha	236	60	176	No staff sanctioned in the cadre of AAOs and Accountants
7. Rajasthan	92	68	24	Not given
8. Tamil Nadu	381	244	137	Shortage of manpower
9. West Bengal	243	100	143	No Reply
<b>Total</b>	<b>2,512</b>	<b>871</b>	<b>1,641</b>	

Source: Inputs from field formations of Pr. CCA, CBDT

Pr. CCA (CBDT) stated (June 2015) that the shortfall occurred due to acute shortage of staff.

**There were instances of delays in issuance of Inspection Reports and delays in receipt of replies after issue of Inspection Reports.**

### **5.5 Issue and follow up of Inspection Reports**

After completion of an inspection, the Internal Audit parties issue an Inspection Report. A progress register is maintained to watch the compliance of Inspection Reports (IRs). First reply to the IRs should be received within one month from the date of issue of the report. The first reminder for reply to an IR should be issued after six weeks from the date of issue of report, and a second reminder, if necessary, sent a month later. Subsequently reminders should be sent by demi-official letters at appropriate level. Normally the report should be settled within 6 months of its issue as per Para 4.16 of the Manual of Internal Inspection of CBDT.

We noticed that above procedure was not followed in Andhra Pradesh and Telangana, Delhi, Karnataka and Kerala charges. IRs were issued after delays, replies to inspection reports were not received within 6 months, reminders were not issued and absence of follow up of inspection reports resulted in pendency of paras.

- a.** In Karnataka charge, IAP audited 22 units and 22 IRs with 172 paras were drawn up during November 2013 to February 2014. Out of these, the IAP did not receive approval for issue of 4 IRs sent to Delhi. Further, the IAP neither received any reply to IRs nor took any follow up action.
- b.** In Hyderabad charge, there was a delay of 126 to 495 days in issue of the IRs of three banks and there was no evidence of IRs issued for 6 banks. Further, the expenditure IRs were issued between periods ranging from 58 days to 286 days in respect of expenditure units and DDO offices. We also found that during FYs 2010-11 to 2013-14, the IRs sent to DCA (Chennai) for vetting were either not received back immediately or received later. The IAP did not issue any reminders on account of non-receipt of replies to IRs.
- c.** In Delhi charge, the IAP did not take any follow up action in two IRs of banks properly, resulting in pendency.

- d. In Kerala charge, there was a delay ranging from 5 to 17 months in issue of Inspection Reports and more than 50 months in issue and settlement of reports respectively. It was replied that due to shortage of staff audit could not be conducted at a stretch and various stages of the report were not done in time.

*Pr. CCA (CBDT) stated (June 2015) that Inspection Reports are now being sent on time but the compliance is not being forwarded by auditee units.*

**No significant efforts were made for settlement of paras as the rate of settlement of paras was very low. Minor objections were not settled on the spot as directed in the Manual thereby resulting in piling up of objections.**

## 5.6 Settlement of Internal Audit Paras

A total of 5,303 Internal Audit paras were raised and 2,222 paras were settled during FYs 2012-13 to 2013-14. As on 31 March 2014, there were 13,184 pending for settlement as detailed in Table 5.6 of this Chapter. As such, the rate of settlement was very low. The year wise breakup of the pendency of these paras was also not available with the Internal Audit Wing. Some illustrations of pendency of paras are as given in Table 5.3 below:

**Table 5.3 Pendency of Paras**

SI No	Region	Pending paras
1	Andhra Pradesh & Telangana	1,412
2	Delhi	772
3	Gujarat	1,255
4	Kerala	360
5	Maharashtra	2,067
6	Rajasthan	652
7	Tamil Nadu	1,073
<b>Total</b>		<b>7,591</b>

*Source: Inputs from field formations of Principal Chief Controller of Accounts, CBDT*

*The Sr.AO, Internal Audit (Co-ordination) Mumbai charge stated (January 2015) that all ZAOs are making efforts to settle outstanding paras by conducting special drives and sending periodical reminders to the auditee units for settlement of paras. It is proposed to set up a Compliance Cell for settling the outstanding paras on priority basis.*

According to Para 4.7 of the Manual of Internal Inspection of CBDT, minor objections should get settled on the spot by getting replies from the Heads of the Offices audited.

In ZAO, CBDT, Chennai charge, we observed that the minor objections were settled only during subsequent audits and not on the spot. *The Sr.AO (IAP), ZAO CBDT Chennai replied (December 2014) that the Internal Audit had raised the objections which are to be seen in the next audit only and which could not be settled on the spot. Department's reply is not acceptable as no reply was obtained from the auditee units for minor objections.*

*Pr. CCA (CBDT) stated (June 2015) that the reasons for delay in settlement of audit paras are due to acute shortage of staff and trained manpower. It was further stated that the ZAOs and IAPs are being reminded to take early follow up action on audit reports and outstanding paras.*

**The Control registers are either not being maintained or not maintained in prescribed format for monitoring the progress and settlement of Internal Audit objections.**

### **5.7 Maintenance of Control Registers**

As per Para 2.5 of the Manual of Internal Inspection of CBDT, Internal Test audit section at Headquarters shall maintain Control Registers, Progress Registers of Internal Inspection Reports, Register showing important irregularities noticed during internal inspections, Register for watching the inspection reports sent by field parties and Register to watch the progress of issued reports. We observed that these registers were either not maintained or not maintained in prescribed format in Andhra Pradesh & Telangana, Gujarat, Karnataka, Kerala, Rajasthan and Tamil Nadu charges.

*Pr. CCA (CBDT) stated (June 2015) that Controls Registers will be maintained in the prescribed format.*

**Training programmes were not held to enhance the skills of the Internal Audit staff.**

### **5.8 Training and Development of Internal Audit Staff**

As per para 2.1 of Manual of Internal Inspection of CBDT, the inspection work should be entrusted to trained and competent staff who should be able to examine accounts intelligently. Thus, special attention is necessary in selecting and providing training to staff deputed for inspection work.

We observed that during FYs 2010-11 to 2013-14, no training programmes were organized for Internal Audit staff in Andhra Pradesh & Telangana, Gujarat, Karnataka, Rajasthan and West Bengal charges. The Officers of ZAO, Mumbai were trained in areas of Report Writing, Risk Based Internal Audit and Internal Audit during FYs 2011-12 and 2013-14.

*Pr. CCA (CBDT) while agreeing that no training was provided during the years 2013-14 and 2014-15, stated (June 2015) that efforts are being made to provide proper training to IAP staff.*

**There is acute shortage of manpower deployed for Internal Audit which hindered the functioning of Internal Audit.**

### **5.9 Manpower deployed for Internal Audit**

In Karnataka charge, out of the sanctioned strength of 3 personnel, the IAP was working with one person. In Gujarat charge, there was shortage of one Sr. Accounts Officer during FYs 2010-11 and 2011-12 and one Accountant during FYs 2012-13 and 2013-14. In Odisha only one AO was available for Internal Audit. In Maharashtra charge, no separate staff is sanctioned for Internal Audit work. During FY 2013-14, only three posts of Senior Accountants were sanctioned for Internal Audit work of ZAO Mumbai office. No posts for Sr.AO and AAO were sanctioned.

In Delhi charge there is no specific sanctioned strength in respect of ITA (HQ), however, working strength of ITA HQ) section comprises of 4 Sr. Accounts Officer/ Accounts Officer, 8 Asstt. Accounts Officers, 5 Sr. Accountants/ Accountants, 1 LDC and 1 MTS.

**As per the Annual Review of Pr. CCA, CBDT, there was shortfall of 75.35 per cent in audit coverage during FYs 2010-11 to 2013-14 owing to acute shortage of manpower.**

### **5.10 Performance of Internal Audit wing of Pr. CCA, CBDT**

The performance of Internal Audit is reported as Annual Review of Performance of Internal Audit for every financial year by the Pr. CCA, CBDT. We found that the zone-wise details of audit coverage of units planned for Internal Audit, audit objections raised and settled etc. are not reported in the Annual Review.

We observed that during FYs 2010-11 to 2013-14, out of 4,921 units to be audited, only 1,213 units (24.65 per cent) were audited leaving 3,708 units (75.35 per cent) unaudited. The year-wise status of shortfalls in coverage of units planned for audit is detailed in Table 5.4 given below:



**Table 5.4: Targets and Achievement of units audited by Internal Audit of Pr. CCA, CBDT**

Year	Units planned for Audit	Units audited	Arrears/ Shortfall
2010-11	907	357	550
2011-12	1,507	190	1,317
2012-13	1,889	287	1,602
2013-14	618	379	239
<b>Total</b>	<b>4,921</b>	<b>1,213</b>	<b>3,708</b>

Source: Internal Audit Wing (HQ), Principal Chief Controller of Accounts, CBDT

The reasons cited for shortfall in audit coverage of units was acute shortage of manpower. Although the number of administrative units has increased consequent to restructuring of ITD, the number of IAPs and associated work strength has reduced. In order to clear the arrears the Pr. CCA, CBDT directed 52 ZAOs to form a party on rotational basis for Internal Audit of all the DDOs/ Banks/Personal Deposit Accounts under their jurisdiction.

The manpower position of Internal Audit Wing as on 31 March 2014 is given in Table 5.5 below:

**Table 5.5: Manpower Position of ITA wing, Pr. CCA, CBDT**

Cadre	Sanctioned Strength	Working Strength
Group A	Nil	Nil
Group B	31	31
Group C	36	24
<b>Total</b>	<b>67</b>	<b>55</b>

Source: Internal Audit Wing (HQ), Principal Chief Controller of Accounts, CBDT

As on 01 April 2012, the opening balance of Internal Audit paras was 7,772. A total of 5,303 Internal Audit paras were raised and 2,222 paras were settled during FYs 2012-13 to 2013-14. As on 31 March 2014, there were 13,184 pending for settlement as shown in Table 5.6 below. During FYs 2012-13 and 2013-14, only 902 paras and 1,320 paras respectively were settled.

**Table 5.6: Details of paras raised and settled by Internal Audit Wing of Pr. CCA, CBDT**

Financial Year	Paras at the beginning of the year	Paras settled	Paras raised	Paras outstanding
2012-13	7,772	902	2,032	8,902
2013-14	11,233 <sup>10</sup>	1,320	3,271	13,184
<b>Total</b>		<b>2,222</b>	<b>5,303</b>	

Source: Internal Audit Wing (HQ), Principal Chief Controller of Accounts, CBDT

The information on status of Internal Audit paras for the FYs 2010-11 and 2011-12 is not available. We found that although the targets and achievement of auditable units and results of Internal Audit is monitored and reported in Annual Review of Performance of Internal Audit by Pr. CCA, CBDT for every Financial Year, the region-wise/ zone-wise details of audit coverage, audit objections raised and settled are not reported.

*Pr. CCA (CBDT) stated (June 2015) that shortfall in achievement of targets of audit coverage occurred due to acute shortage of manpower.*

### 5.11 Conclusion

We noticed that the IAPs of Pr. CCA, CBDT did not conduct audit of RTI, Systems Audit, e-payment Audit and Refund Audit as per the scope outlined by the CBDT. The shortfalls in audit coverage ranged from 10 to 774 units during FYs 2010-11 to 2013-14 on account of acute shortage of manpower. We noticed instances of delays in issue of IRs and in receipt of replies post issue of IRs. The rate of settlement of paras was very low. We found that the region-wise/ zone-wise details of audit coverage, audit objections raised and settled are not reported in Annual Review of Performance of Internal Audit by Pr. CCA, CBDT for every financial year.

### 5.12 Recommendations

We recommend that

- a. Pr. CCA (CBDT) may consider monitoring the coverage of functional units falling within the scope of Internal Audit on a centralized basis and reporting the results of the same in Annual Review of Performance of Internal Audit.

<sup>10</sup> The difference in opening balance in 2013-14 and closing balance of 2012-13 is due to increase in number of ZAOs from 24 to 52.

- b. Pr. CCA (CBDT) may report zone-wise results of Internal Audit under Pr. CCA in its Annual Review of Performance of Internal Audit (viz. audit coverage of units planned, details of audit objections raised and settled) published every financial year.

*On above recommendations, the Ministry stated (June 2015) that Annual Review is prepared in the prescribed format issued by the Office of Controller General of Accounts.*

Audit is of the view that for better appreciation of work of Internal Audit, Pr. CCA (CBDT) should consider centralised monitoring of audit of functional units and reporting zone-wise results in the Annual Review of Performance of Internal Audit.

New Delhi  
Dated: 20 July 2015

  
(MANISH KUMAR)  
Principal Director (Direct Taxes)

Countersigned

New Delhi  
Dated: 20 July 2015

  
(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India